

**COCHISE COUNTY COMMUNITY
COLLEGE DISTRICT
SINGLE AUDIT REPORTING PACKAGE
FOR THE YEAR ENDED JUNE 30, 2004**

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
SINGLE AUDIT REPORTING PACKAGE
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<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets – Primary Government	11
Statement of Financial Position – Component Unit	12
Statement of Revenues, Expenses, and Changes in Net Assets – Primary Government	13
Statement of Activities – Component Unit	14
Statement of Cash Flows – Primary Government	15
Notes to Financial Statements	17
Supplementary Information:	
Schedule of Expenditures of Federal Awards	28
Notes to Schedule of Expenditures of Federal Awards	29
SINGLE AUDIT SECTION	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	30
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	32
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results	34



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INDEPENDENT AUDITORS' REPORT

The Auditor General of the State of Arizona

The Governing Board of
Cochise County Community College District

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Cochise County Community College District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Cochise County Community College District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the District implemented the provisions of the Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, for the year ended June 30, 2004, which requires reporting as a component unit those organizations that raise and hold economic resources for the direct benefit of the District or its constituents.

The management's discussion and analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

January 13, 2005

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

This section of Cochise County Community College District's (District) financial statements presents management's discussion and analysis of the District's financial activity for the year ended June 30, 2004. Please read it in conjunction with the District's financial statements, which can be found following the management's discussion and analysis.

Basic Financial Statements

The basic financial statements consist of the following:

The Statement of Net Assets reflects the financial position of the District at June 30, 2004. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents the institutional equity or ownership in the total assets of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and other changes for the year ended June 30, 2004. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount – which is shown on the Statement of Net Assets described above.

The Statement of Cash Flows reflects the inflows and outflows of cash and cash equivalents for the year ended June 30, 2004. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount – which is shown on the Statement of Net Assets described above. In addition, this statement reconciles cash flows used for operating activities to operating income/loss on the Statement of Revenues, Expenses, and Changes in Net Assets described above.

Although the primary focus of this document is on the results of activity for fiscal year 2003-04, comparative data is presented for the previous fiscal year 2002-03. This Management's Discussion and Analysis (MD&A) uses the prior fiscal year as a reference point in illustrating issues and trends for determining whether the institution's financial health may have improved or deteriorated.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

Condensed Financial Information

Statement of Net Assets

	<u>As of June 30, 2004</u>	<u>As of June 30, 2003</u>
<u>Assets</u>		
Current assets	\$14,366,719	\$10,932,462
Noncurrent assets, other than capital assets	456,680	430,820
Capital assets, net	12,029,501	12,099,902
Total assets, net	<u>26,852,900</u>	<u>23,463,184</u>
 <u>Liabilities</u>		
Current liabilities	3,740,578	3,256,145
Long-term liabilities	1,271,783	1,849,684
Total liabilities	<u>5,012,361</u>	<u>5,105,829</u>
 <u>Net Assets</u>		
Invested in capital assets, net of related debt	10,749,501	10,650,275
Restricted	1,910,376	1,632,592
Unrestricted	9,180,662	6,074,488
Total net assets	<u>\$21,840,539</u>	<u>\$18,357,355</u>

Invested in capital assets, net of related debt, and unrestricted net assets represent 49.2 percent and 42.0 percent of total net assets, respectively at June 30, 2004. Last year the percentages were 58.0 percent and 33.1 percent respectively. These two percentages are somewhat inversely related since the amount invested in capital assets, net of related debt rose only \$99,226 which is an increase of 1.0 percent. Whereas the unrestricted net assets rose \$3,106,174 which is an increase of 51.1 percent. With the large increase in unrestricted net assets and the invested in capital assets, net of related debt remaining approximately the same, the percent of the total net assets invested in capital assets, net of related debt has decreased 8.8 percent, while the unrestricted net assets percentage increased 8.9 percent.

The College's overall financial position improved in fiscal year 2003-04. Total assets increased by \$3.4 million while total liabilities decreased by \$93,468. Current assets increased by \$3.4 million and total net assets increased by \$3.5 million due to general fund revenues exceeding the budget by \$100,000 and general fund expenses were under budget by \$2.7 million. In addition, revenues in auxiliary enterprises exceeded expenses by \$200,000 and revenues in restricted funds exceeded expenses by \$100,000. Restricted receivables increased by \$100,000 and long-term debt was reduced by \$215,000.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

For 2003-04, current assets are approximately 3.8 times the amount of current liabilities. The increase in current assets is primarily due to expenses being under budget by \$2.7 million, of this total, \$1.35 million was attributable to the District not hiring as many associate faculty as expected when the budget was prepared. As a result \$602,000 was unexpended and not all positions were filled as expected. In addition, \$75,000 was not spent for additional items.

Statement of Revenues, Expenses, and Changes in Net Assets

	Fiscal Year Ended <u>June 30, 2004</u>	Fiscal Year Ended <u>June 30, 2003</u>
Operating Revenues:		
Tuition and fees (net of scholarship allowances)	\$3,874,044	\$ 3,395,065
Grants and contracts	7,357,217	7,717,577
Other operating revenues	1,478,572	1,000,197
Total operating revenues	<u>12,709,833</u>	<u>12,112,839</u>
 Total operating expenses	 <u>28,398,570</u>	 <u>28,893,096</u>
 Operating loss	 <u>(15,688,737)</u>	 <u>(16,780,257)</u>
Nonoperating revenues (expenses):		
Property taxes	10,144,554	9,642,802
State appropriations	7,748,800	7,547,001
Other nonoperating revenues	588,067	424,850
Investment income (loss)	92,798	(204,595)
Interest on capital asset-related debt	(84,098)	(96,408)
Net nonoperating revenues	<u>18,490,121</u>	<u>17,313,650</u>
 Income before capital appropriations	 <u>2,801,384</u>	 <u>533,393</u>
 Capital Appropriations	 <u>681,800</u>	 <u>681,800</u>
 Increase in net assets	 3,483,184	 1,215,193
Total net assets, beginning of year	<u>18,357,355</u>	<u>17,142,162</u>
Total net assets, end of year	<u>\$21,840,539</u>	<u>\$18,357,355</u>

Total operating revenues increased in 2003-04 by \$596,994 with the most significant reason for the increase being the raising of tuition by 13% resulting in an overall increase in tuition and fees of 14% or \$478,979.

Due to increased valuation of property and new construction, the property tax levy revenue increased 5.2% or \$501,752. There was also an increase in state equalization of 2.7% or \$201,799.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

There were some significant increases and decreases in operating expenses with the overall effect of a decrease of \$494,526 for total operating expenses for 2003-04. The significant changes in overall expenses are as follows.

The significant decreases in expenses were as follows:

Insurance	\$123,000
Noncapital computer purchases	\$193,000
Federal Pell Grant awards	\$147,000
Various other miscellaneous decreases	\$208,000

The significant increases were as follows:

Arizona State Retirement (Increased contribution rate 3.2%)	\$385,000
Roofing Project on the Douglas Campus	\$381,000
Increase in the scholarship allowance	\$208,000

The Arizona State retirement board raised the contribution rate for 2003-04 to 5.2 % from 2.0% increasing the District's expense. Insurance premiums decreased because of a change of dates for policy renewals. A full year was paid in fiscal year 2003; the premiums were for February 2003 through January 2004. In fiscal year 2004 the policy was for only February through June of 2004, with a new policy taking effect on July 1, 2004. A major replacement of the District's computers took place in 2002-03; however, not as many needed to be replaced in 2003-04. Federal Pell Grant awards disbursed in fiscal year 2004 were \$147,000 less than in fiscal year 2003. There were fewer students that received aid in fiscal year 2004 and the average amount each student received was less in fiscal year 2004. The increase in the scholarship allowance was due to the increase in tuition. The other miscellaneous decreases were a net difference from various immaterial line items that were primarily underspent. The decreases were slightly offset by the increase in retirement contributions.

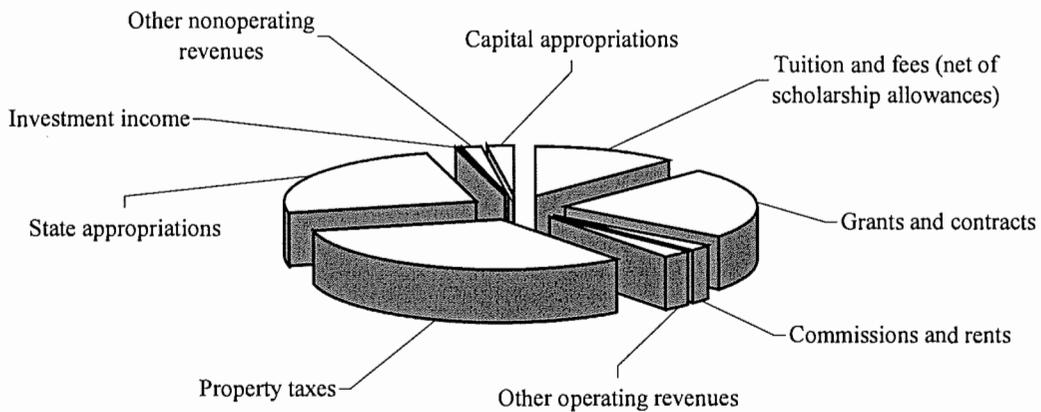
Net investment income for 2002-03 reflected a loss in the LGIP fund. Normal investment income for 2003-04 resulted in an increase between the two years of \$297,393.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

The following schedule presents a summary of revenues for the fiscal years ended June 30, 2004 and June 30, 2003.

	<u>Fiscal Year Ended June 30, 2004</u>		<u>Fiscal Year Ended June 30, 2003</u>	
<u>Operating revenues</u>				
Tuition and fees (net of scholarship allowances)	\$ 3,874,044	12%	\$ 3,395,065	11%
Grants and contracts	7,357,217	23	7,717,577	26
Commissions and rents	609,115	2	647,977	2
Other operating revenues	869,457	3	352,220	1
Total operating revenues	<u>12,709,833</u>	<u>40</u>	<u>12,112,839</u>	<u>40</u>
<u>Nonoperating revenues</u>				
Property taxes	10,144,554	32	9,642,802	32
State appropriations	7,748,800	24	7,529,669	25
Investment income (loss)	92,798	-	(204,595)	-
Other nonoperating revenues	588,067	2	442,182	1
Total nonoperating revenues	<u>18,574,219</u>	<u>58</u>	<u>17,410,058</u>	<u>58</u>
Capital appropriations	<u>681,800</u>	<u>2</u>	<u>681,800</u>	<u>2</u>
Total revenues	<u>\$31,965,852</u>	<u>100%</u>	<u>\$30,204,697</u>	<u>100%</u>

Revenues by Source - 2004

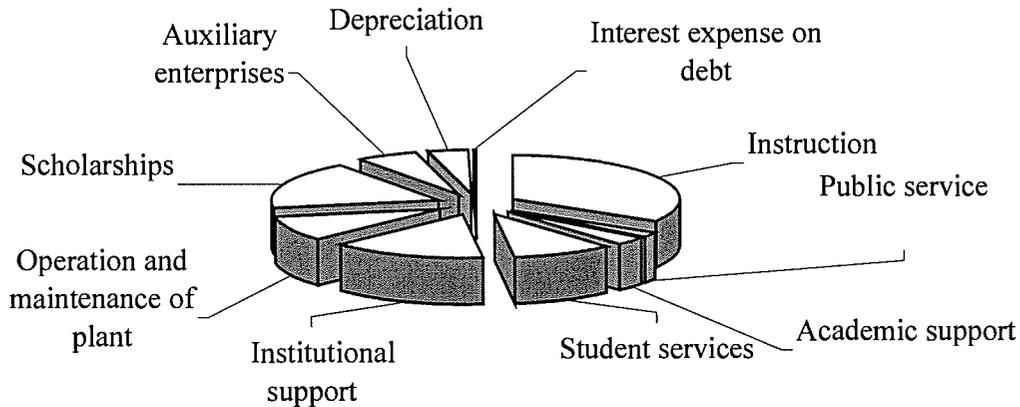


**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

The following schedule presents a summary of expenses for the fiscal years ended June 30, 2004 and June 30, 2003.

	<u>Fiscal Year Ended June 30, 2004</u>		<u>Fiscal Year Ended June 30, 2003</u>	
<u>Operating expenses</u>				
Education and general:				
Instruction	\$11,664,764	41%	\$12,166,791	42%
Public service	456,122	2	340,121	1
Academic support	903,969	3	861,049	3
Student services	2,726,816	9	2,849,238	10
Institutional support	4,317,051	15	4,555,534	16
Operation and maintenance of plant	2,588,501	9	2,448,144	8
Scholarships	3,027,789	11	3,325,570	11
Auxiliary enterprises	1,601,063	6	1,336,144	5
Depreciation	1,112,495	4	1,010,505	3
Total operating expenses	<u>28,398,570</u>	<u>100</u>	<u>28,893,096</u>	<u>99</u>
<u>Nonoperating expenses</u>				
Interest expense on debt	84,098	-	96,408	1
Total expenses	<u>\$28,482,668</u>	<u>100%</u>	<u>\$28,989,504</u>	<u>100%</u>

Expenses by Program - 2004



**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

Capital Assets

Below is a summary of the capital assets, net of depreciation, as of June 30, 2004 and June 30, 2003. See Note 3 for further details.

	As of June 30, 2004	As of June 30, 2003
Land	\$ 495,580	\$ 495,580
Buildings	8,703,113	8,747,098
Equipment	1,099,257	1,159,306
Improvements other than buildings	1,424,005	1,393,411
Library books	271,796	267,657
Museum and art collection	35,750	36,850
Total	\$12,029,501	\$12,099,902

Long-Term Debt

At June 30, 2004 and June 30, 2003, the District had one certificate of participation issue outstanding totaling \$1,280,000 and \$1,495,000 respectively. No new debt was issued during the fiscal year. See Note 4 for further details.

Current Economic Conditions

Cochise County realized an overall 5.2 percent increase in property values for the year, thereby increasing the District's property tax revenue \$501,752. Assessed values and property tax revenues are expected to increase another 8% for 2005. New construction continues to drive the increase in assessed values.

Current Factors Having Probable Future Financial Significance

During the 2003-04 fiscal year, State appropriations to the District were increased by \$201,799, or approximately 2.7 percent. The financial support from the state has stabilized at the present time. Budget cuts in the form of less state aid in previous years required a tuition and fee increase of 13 percent effective in fiscal year 2004. No increase in tuition and fees was requested for fiscal year 2005. The District is currently undergoing a master facilities plan analysis to plan the future direction and growth of the college and at the same time to find the best ways to meet the needs of the county. A significant increase in full-time student equivalents (FTSE) is attributable to a collaborative Military Occupational Specialty (MOS) program offered to Fort Huachuca active duty soldiers. This one program now contributes one-third of the overall FTSE for Cochise College and results in increased State Appropriations. Growth in the MOS program is anticipated for the next 2-3 years, at which time the enrollments are expected to level out.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004**

Requests for Information

This discussion and analysis is designed to provide a general overview of the Cochise County Community College District's finances for all those with an interest in such matters. Questions concerning any of the information provided in the financial statements or requests for additional financial information should be addressed to the Office of the Controller, Cochise County Community College District, 4190 West Highway 80, Douglas, Arizona 85607.

Cochise County Community College District
Statement of Net Assets - Primary Government
June 30, 2004

	Business-Type Activities
Assets	
Current Assets:	
Cash and cash equivalents	\$ 11,649,306
Receivables:	
Accounts (less allowances of \$294,627)	1,013,931
Property taxes (less allowances of \$291,293)	580,426
Government grants and contracts	362,607
Interest	14,445
Other	311,112
Inventories	298,261
Prepaid items	136,631
Total current assets	14,366,719
Noncurrent assets:	
Restricted assets:	
Cash and cash equivalents	417,593
Cash and investments held by trustee	39,087
Capital assets, not being depreciated	495,580
Capital assets, being depreciated, net	11,533,921
Total noncurrent assets	12,486,181
Total assets	26,852,900
Liabilities	
Current liabilities:	
Accounts payable	425,268
Accrued payroll and employee benefits	929,400
Interest payable	39,048
Deposits held in custody for others	218,027
Deferred revenues	1,133,835
Current portion of compensated absences payable	770,000
Current portion of long-term debt	225,000
Total current liabilities	3,740,578
Noncurrent liabilities:	
Compensated absences payable	216,783
Long-term debt	1,055,000
Total non-current liabilities	1,271,783
Total liabilities	5,012,361
Net Assets	
Invested in capital assets, net of related debt	10,749,501
Restricted for:	
Expendable:	
Capital projects	1,326,983
Debt service	134,331
Grants and contracts	449,062
Unrestricted	9,180,662
Total net assets	\$ 21,840,539

**Cochise County Community College District
Statement of Financial Position - Component Unit
June 30, 2004**

	<u>Cochise College Foundation</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 66,260
Pledges receivable	1,750
Total current assets	<u>68,010</u>
Noncurrent assets:	
Pledges receivable	4,000
Investments	550,945
Investments held for endowment purposes	1,236,012
Land held as an investment	159,293
Total noncurrent assets	<u>1,950,250</u>
Total assets	<u>\$ 2,018,260</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accrued payroll	\$ 8,361
Net Assets:	
Unrestricted	284,624
Temporarily restricted	489,263
Permanently restricted	1,236,012
Total net assets	<u>2,009,899</u>
Total liabilities and net assets	<u>\$ 2,018,260</u>

See accompanying notes to financial statements.

Cochise County Community College District
Statement of Revenues, Expenses, and Changes in Net Assets - Primary Government
For the Year Ended June 30, 2004

	Business-Type Activities
Operating revenues:	
Tuition and fees (net of scholarship allowances of \$2,072,981)	\$ 3,874,044
Government grants and contracts	7,353,192
Private grants and contracts	4,025
Bookstore income	113,160
Food service income	302,177
Dormitory rentals and fees	193,778
Other	869,457
Total operating revenues	12,709,833
Operating expenses:	
Educational and general:	
Instruction	11,664,764
Public service	456,122
Academic support	903,969
Student services	2,726,816
Institutional support	4,317,051
Operation and maintenance of plant	2,588,501
Scholarships	3,027,789
Auxiliary enterprises	1,601,063
Depreciation	1,112,495
Total operating expenses	28,398,570
Operating loss	(15,688,737)
Nonoperating revenues (expenses):	
Property taxes	10,144,554
State appropriations	7,748,800
Share of state sales taxes	588,067
Investment income	92,798
Interest on capital asset-related debt	(84,098)
Net nonoperating revenues (expenses)	18,490,121
Income before other revenues, expenses, gains, or losses	2,801,384
Capital appropriations	681,800
Increase in net assets	3,483,184
Total net assets, July 1, 2003	18,357,355
Total net assets, June 30, 2004	\$ 21,840,539

**Cochise County Community College District
Statement of Activities - Component Unit
For the Year Ended June 30, 2004**

	Cochise College Foundation			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Contributions	\$ 59,650	\$ 565,665	\$	\$ 625,315
Investment return	28,424	47,019		75,443
Change in fair value of investments	89,742			89,742
Total support and revenue before net assets released from restriction	177,816	612,684		790,500
Net assets released from restriction	411,925	(411,925)		
Total support and revenue	589,741	200,759		790,500
Expenses:				
Scholarships and other programs	448,822			448,822
Supporting services	54,094			54,094
Total expenses	502,916			502,916
Change in net assets	86,825	200,759		287,584
Net assets, beginning of year	197,799	288,504	1,236,012	1,722,315
Net assets, end of year	\$ 284,624	\$ 489,263	\$ 1,236,012	\$ 2,009,899

See accompanying notes to financial statements.

**Cochise County Community College District
Statement of Cash Flows - Primary Government
Year Ended June 30, 2004**

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	\$ 3,873,583
Grants and contracts	7,191,549
Bookstore receipts	120,390
Food services receipts	301,358
Dormitory rentals and fees	193,778
Other receipts	765,513
Payments to suppliers and providers of goods and services	(5,241,403)
Payments to employees	(18,608,727)
Payments for scholarships	(3,027,789)
Other payments	(242,518)
Net cash used for operating activities	(14,674,266)
Cash flows from noncapital financing activities:	
Property taxes	10,122,138
State appropriations	7,748,800
Share of state sales taxes	578,454
Federal family education loan receipts	2,449,189
Federal family education loan disbursements	(2,443,422)
Short term loans received	3,328
Short term loans disbursed	(3,650)
Deposits held in custody for others received	1,501,155
Deposits held in custody for others disbursed	(1,376,596)
Net cash provided by noncapital financing activities	18,579,396
Cash flows from capital and related financing activities:	
Capital appropriations	681,800
Principal paid on capital debt	(215,000)
Interest paid on capital debt	(90,333)
Purchases of capital assets	(998,882)
Net cash used for capital and related financing activities	(622,415)
Cash flows from investing activities:	
Investment income	85,637
Net cash provided by investing activities	85,637
Net increase in cash and cash equivalents	3,368,352
Cash and cash equivalents, July 1, 2003	8,698,547
Cash and cash equivalents, June 30, 2004	\$ 12,066,899

(Continued)

**Cochise County Community College District
Statement of Cash Flows - Primary Government
Year Ended June 30, 2004
(Concluded)**

	Business-Type Activities
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (15,688,737)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	1,112,495
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(461)
Government grants and contracts receivable	(165,668)
Other receivables	(97,398)
Accounts payable	55,198
Decrease in:	
Inventories	4,116
Prepaid items	190,937
Accrued payroll and employee benefits	(51,847)
Compensated absences payable	(32,901)
Net cash used for operating activities	\$ (14,674,266)

Noncash investing, noncapital financing, and capital and related financing transactions:

During the year the District disposed of obsolete and retired capital assets in the amount of \$155,548.

COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cochise County Community College District (District) conform to generally accepted accounting principles applicable to public institutions engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

During the year ended June 30, 2004, the District implemented the provisions of the Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which requires reporting as a component unit those organizations that raise and hold economic resources for the direct benefit of the District.

A. Reporting Entity

The District is a special-purpose government that is governed by a separately elected governing body. It is legally separate and fiscally independent of other state and local governments. The accompanying financial statements present the activities of the District (the primary government) and its discretely presented component unit, the Cochise College Foundation, Inc. (Foundation).

The Cochise College Foundation, Inc. is a legally separate, tax-exempt organization. It acts primarily as a fund-raising organization that receives gifts and bequests, administers those resources, and disburses payments to or on behalf of the District for scholarships. Although the District does not control the timing or amount of the receipts from the Foundation, the Foundation's restricted resources can only be used by, or for the benefit of, the District or its constituents. Consequently, the Foundation is considered a component unit of the District and is discretely presented in the District's financial statements. For financial reporting purposes only the Foundation's statements of financial position and activities are included in the District's financial statements as required by generally accepted accounting principles for public colleges and universities.

For financial reporting purposes, the Foundation follows the Financial Accounting Standards Board statements for non-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information included in the District's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the District. The Foundation has a June 30 year end.

During the year ended June 30, 2004, the Foundation distributed \$448,822 to and on behalf of the District for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Cochise College Foundation, 4190 W. State Hwy 80, Douglas, Arizona 85607.

COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Basis of Presentation and Accounting

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

A statement of net assets provides information about the assets, liabilities, and net assets of the District at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy District obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net assets provides information about the District's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from providing instructional, public, and auxiliary services, which is consistent with the District's mission. Accordingly, revenues such as tuition, educational grants, and book store, food service, and dormitory charges are considered to be operating revenues. Other revenues, such as property taxes and state appropriations, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

A statement of cash flows provides information about the District's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, non-capital financing, capital financing, or investing.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized in the year for which they are levied. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District eliminates all internal activity.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

It is the District's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

C. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the County Treasurer, investments in the State Treasurer's Local Government Investment Pool, and highly liquid investments. Investments are stated at fair value.

D. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

E. Capital Assets

Capital assets are reported at actual cost, or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$5,000	N/A	N/A
Improvements other than buildings	5,000	Straight line	15 years
Buildings	5,000	Straight line	40 years
Equipment	5,000	Straight line	5-30 years
Museum art collection	5,000	Straight line	60 years
Library books	1	Straight line	10 years

COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

F. Investment Income (Loss)

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

G. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 176 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees. Therefore, a liability for sick leave benefits is not accrued in the financial statements. However, for employees who are at least 55 years of age or have met the necessary points for full retirement with the Arizona State Retirement System and have been employed by the District for at least 10 years, a portion of their sick leave benefits does vest. Those amounts are accrued as a liability in the financial statements.

H. Scholarship Allowances

A scholarship allowance is the difference between the stated charge for goods and services provided by the District and the amount that is paid by the student or third parties making payments on behalf of the student. Accordingly, some types of student financial aid such as Pell grants and scholarships awarded by the District are considered to be scholarship allowances. These allowances are netted against tuition and fees revenues in the statement of revenues, expenses, and changes in net assets.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 - DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) require the District to deposit special tax levies for the District's maintenance or capital outlay with the County Treasurer. The statutes do not require the District to deposit other public monies in its custody with the County Treasurer; however, the District must act as a prudent person dealing with the property of another when making investment decisions about those monies.

At June 30, 2004, the District's deposits and investments consisted of the following.

	Reported on the Statement of Net Assets as:	
	Cash and Cash Equivalents	Cash and Investments Held by Trustee
Deposits:		
Cash on hand	\$ 18,029	\$
Cash in bank	2,114,148	
Investments at fair value:		
Cash and investments held by the County Treasurer	321,500	
Investment in State Treasurer's investment pool	9,613,222	
Money market mutual fund		39,087
Total	\$12,066,899	\$39,087

At June 30, 2004, the carrying amount of the District's cash in bank was \$2,114,148, and the bank balance was \$2,422,795. Of the bank balance, \$180,117 was covered by Federal depository insurance, or by collateral held by the District or its agent in the District's name and \$2,242,678 was covered by collateral held by the pledging financial institution's trust department or agency in the District's name.

The District's investment in the State and County Treasurer's investment pools represents a proportionate interest in those pools' portfolios; however, the District's portion is not identified with specific investments and is not subject to custodial credit risk. The District's money market mutual funds are categorized as category 3 risk level. These funds are held by the District's agent in the District's name, but are uninsured and unregistered.

COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS (Concl'd)

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. No comparable oversight is provided for the County Treasurer's investment pool, and that pool's structure does not provide for shares.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows.

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 495,580	\$	\$	\$ 495,580
Total capital assets not being depreciated	<u>495,580</u>			<u>495,580</u>
Capital assets being depreciated:				
Buildings	18,164,860	412,883		18,577,743
Equipment	5,366,232	344,406	143,140	5,567,498
Improvements other than buildings	3,805,464	228,353		4,033,817
Library books	1,188,937	56,452	12,408	1,232,981
Museum art collection	66,000			66,000
Total capital assets being depreciated	<u>28,591,493</u>	<u>1,042,094</u>	<u>155,548</u>	<u>29,478,039</u>
Less accumulated depreciation for:				
Buildings	(9,417,762)	(456,868)		(9,874,630)
Equipment	(4,206,926)	(404,455)	(143,140)	(4,468,241)
Improvements other than buildings	(2,412,053)	(197,759)		(2,609,812)
Library books	(921,280)	(52,313)	(12,408)	(961,185)
Museum art collection	(29,150)	(1,100)		(30,250)
Total accumulated depreciation	<u>(16,987,171)</u>	<u>(1,112,495)</u>	<u>(155,548)</u>	<u>(17,944,118)</u>
Total capital assets being depreciated, net	<u>11,604,322</u>	<u>(70,401)</u>		<u>11,533,921</u>
Capital assets, net	<u>\$12,099,902</u>	<u>\$ (70,401)</u>	<u>\$</u>	<u>\$12,029,501</u>

COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 4 – LONG-TERM LIABILITIES

The following schedule details the District's long-term liability and obligation activity for the year ended June 30, 2004.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Compensated absences payable	\$1,019,684	\$891,340	\$ 924,241	\$ 986,783	\$770,000
Certificates of participation payable	1,495,000		215,000	1,280,000	225,000
Total long-term liabilities	<u>\$2,514,684</u>	<u>\$891,340</u>	<u>\$1,139,241</u>	<u>\$2,266,783</u>	<u>\$995,000</u>

Certificates of participation - The District has issued certificates of participation that were generally noncallable until 2004 when they became callable at a premium, with interest payable semiannually to fund a portion of the \$5,000,000 building expansion project on the Sierra Vista campus.

Certificates outstanding at June 30, 2004, were as follows.

<u>Issue</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
Series 1993	\$3,000,000	7/1/2005-09	5.90%-6.25%	\$1,280,000

The following schedule details debt service requirements to maturity for the District's certificates of participation payable at June 30, 2004.

Year Ending June 30	<u>Principal</u>	<u>Interest</u>
2005	\$ 225,000	\$ 61,458
2006	240,000	57,620
2007	255,000	42,642
2008	270,000	26,495
2009	290,000	9,063
Total	<u>\$1,280,000</u>	<u>\$197,278</u>

COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 5 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all such risks of loss, including workers' compensation and accident insurance. In addition, the District carries specialized commercial insurance for the risks of loss associated with its aircraft program and nursing and emergency medical technician student program. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 6 - RETIREMENT PLAN

Plan description - The District contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by State statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding policy - The Arizona State Legislature establishes and may amend active plan members' and the District's contribution rates. For the year ended June 30, 2004, active plan members and the District were each required by statute to contribute at the actuarially determined rate of 5.70 percent (5.20 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The District's contributions to the System for the years ended June 30, 2004, 2003, and 2002, were \$620,691, \$279,956, and \$307,696, respectively, which were equal to the required contributions for the year.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 - OPERATING EXPENSES

The District's operating expenses are presented by functional classification in the Statement of Revenues, Expenses, and Changes in Net Assets. The operating expenses can also be classified into the following.

Personal services	\$18,523,979
Contract services	1,970,927
Supplies and other services	1,795,139
Rent and insurance	444,806
Communications and utilities	885,605
Travel	395,312
Scholarships	3,027,789
Depreciation	1,112,495
Other	242,518
Total	\$28,398,570

NOTE 8 – DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES

NOTE 8-A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Cochise College Foundation, Inc. (Foundation) have been prepared on the accrual basis of accounting. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows.

Unrestricted net assets – net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets – net assets subject to donor-imposed restrictions that may or will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets – net assets subject to donor-imposed restrictions that must be maintained permanently by the Foundation.

Temporarily restricted net assets are those whose use by the Foundation have been limited by donors to a specific time period or purpose. When a donor restriction expires, either when the stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are classified as unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as restricted contributions and subsequently released from restriction in the accompanying financial statements.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 8 – DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES (Cont'd)

NOTE 8-A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restriction.

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises and other gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Revenue and expenses are recorded on the accrual basis. Revenue received for future scholarships is deferred until the applicable year.

Expense Allocation

Directly identifiable expenses of the Foundation's programs are charged to scholarships and other programs. Supporting services expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Income Tax Status

The Foundation is exempt from federal income tax as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Arizona Revised Statutes. Accordingly, there are no income taxes reflected on the Statement of Financial Position or the Statement of Activities.

COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8 – DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES (Concl'd)

NOTE 8-B - CASH AND INVESTMENTS

The Foundation's total cash in bank at June 30, 2004 was entirely covered by Federal depository insurance or Securities Investor Protection Corporation coverage.

The Foundation's investments are stated at fair value and consist of certificates of deposit, corporate bonds, stocks and mutual funds as follows:

Certificates of deposit	\$ 212,332
Corporate bonds	915,638
Stocks	19,024
Mutual funds	<u>639,962</u>
Total	<u>\$1,786,956</u>

These investments represent Board designated amounts set aside in prior years for the purpose of providing an income stream for annual operations.

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Amount Provided to Subrecipients</u>
<u>U.S. Department of Housing and Urban Development</u>				
Direct Program:				
Hispanic-Serving Institutions Assisting Communities	14.514		\$ <u>8,531</u>	\$ <u>8,400</u>
<u>U.S. Small Business Administration</u>				
Passed through Maricopa County Community College District:				
Small Business Development Center	59.037	3-603001-Z-0003-11 4-603001-Z-0003-12	<u>72,715</u>	
<u>U.S. Department of Education</u>				
Direct Programs:				
Student Financial Aid Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007		95,794	
Federal Family Education Loans	84.032		2,176,993	
Federal Work-Study Program	84.033		173,204	
Federal Pell Grant Program	84.063		4,641,697	
Higher Education-Institutional Aid	84.031		362,556	
TRIO-Student Support Services	84.042		222,718	
Child Care Access Means Parents in School	84.335		31,262	
Passed through the Arizona Department of Education:				
Adult Education-State Grant Program	84.002	04FAEABE-470536-03A 04-FAECIV-470536-01A	517,093	
Vocational Education-Basic Grants to States	84.048	03FCTDBG-370536-05A 04FCTDBG-470536-05A	222,083	
Even Start-State Educational Agencies	84.213	04FECEVS-470536-02A	80,000	
Tech-Prep Education	84.243	03FCTDTP-370536-04A 04FCTDTP-470536-04A 04FCTDTP-470536-07A	185,956	85,335
Passed through the Arizona Commission for Postsecondary Education:				
Leveraging Educational Assistance Partnership	84.069	LEAP	<u>7,451</u>	
Total U.S. Department of Education			<u>8,716,807</u>	<u>85,335</u>
Total Expenditures of Federal Awards			<u>\$ 8,798,053</u>	<u>\$ 93,735</u>

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004**

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cochise County Community College District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2004 *Catalog of Federal Domestic Assistance*.

SINGLE AUDIT SECTION



HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Auditor General of the State of Arizona

The Governing Board of
Cochise County Community College District

We have audited the financial statements of the business-type activities and discretely presented component unit of Cochise County Community College District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 13, 2005. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 39. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Cochise County Community College District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cochise County Community College District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters that we reported to management of in a separate letter dated January 13, 2005.

This report is intended solely for the information and use of the Governing Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

January 13, 2005



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Auditor General of the State of Arizona

The Governing Board
Cochise County Community College District

Compliance

We have audited the compliance of Cochise County Community College District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, Cochise County Community College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governing Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

January 13, 2005

**COCHISE COUNTY COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004**

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? yes X no
 Reportable condition(s) identified that are not considered to
 be a material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? yes X no
 Reportable condition(s) identified that are not considered to
 be a material weakness(es)? yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in
 accordance with Section .510(a) of OMB Circular A-133? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.002	Adult Education – State Grant Program
84.031	Higher Education – Institutional Aid
	Student Financial Assistance Cluster:
84.007	Federal Supplemental Educational Opportunity Grants
84.032	Federal Family Education Loans
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program

Dollar threshold used to distinguish between Type A and Type B
 programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to
 be reported in accordance with Circular A-133 (section .315[b])? yes X no